

SUBCOMMITTEE NO. 5

Agenda

Gloria Romero, Chair
John Campbell
Mike Machado



Hearing Outcomes

Thursday, March 10, 2005
Upon adjournment of session
Room 112

Consultant: Brian Annis

Labor and Veterans' Affairs

<u>Item</u>	<u>Department</u>	<u>Page</u>
0559	Labor and Workforce Development Agency.....	2
7100	Employment Development Department.....	4
7350	Department of Industrial Relations	10
8950	Department of Veterans' Affairs	15
	Veterans' Home of California – Yountville	
	Veterans' Home of California – Barstow	
	Veterans' Home of California – Chula Vista	
	Attachments	21
 Proposed Consent Calendar		
7120	California Workforce Investment Board.....	1

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

Department Budgets Proposed for Consent / Vote Only**7120 California Workforce Investment Board**

The federal Workforce Investment Act (Act) of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers. Pursuant to the provisions of the Act, the Governor established a state Workforce Investment Board comprised of the Governor; two members of the Senate, appointed by the President pro Tempore; two members of the Assembly, appointed by the Speaker; and representatives of business, labor organizations, community-based organizations, schools and colleges, state agencies, and local governments appointed by the Governor. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

Proposed Budget: The Governor proposes \$5.6 million (federal funds and reimbursements) and 26.3 positions for the Board's budget – an increase of \$286,000. The Administration did not submit any Budget Change Proposals for this item.

Staff Comment: No issues have been raised with the Board's proposed budget.

Action: *Budget approved on a 3-0 vote.*

Department Budgets Proposed for Discussion

0559 Secretary for Labor and Workforce Development

The Labor and Workforce Development Agency (Agency) brings together the departments, boards and commissions that train, protect and provide benefits to employees and employers of California, such as unemployment insurance and workers' compensation. The roles and responsibilities of the agency are codified in Chapter 859, Statutes of 2002 (SB 1236). The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

Proposed Budget: The Governor proposes \$2.2 million (all reimbursements from departments) and 13.2 positions for the Secretary's budget – an increase of \$19,000. The Administration did not submit any Budget Change Proposals for this item.

Issue for Discussion

1. Agency-Produced Video on Proposed Meal-Break Regulations. The Agency expended \$1,262 on a video, which was provided to media outlets, that advocates for meal-period regulations proposed by the Administration. The production of the video involved the following four state entities.

- The Labor and Workforce Development Agency: Produced, distributed, and funded the video.
- The Employment Development Department: Provided the facility at which the video was produced.
- The Department of General Services: Made the video for a \$1,262 fee.
- The Department Industrial Relations: Posted transcripts of the video on the Department's website.

Content of video: The transcript of the video is Attachment I to this agenda. The video includes comments from Mr. Jose Millan, Deputy Agency Secretary; testimonials from management and labor; voiceovers; and a suggest Anchor Lead; that all present positive information about the regulation. No critical information is included in the video, although there has been public opposition to this regulation as early as mid-December.

Purpose of video: On February 28, 2005, a *Los Angeles Times* article included the following comments from Mr. Rick Rice, Undersecretary of the Labor and Workforce Development Agency:

Rice said the video was intended to counter opposition led by labor. Insisting the video is not propaganda, Rice added: "What they are complaining about is that the message is not being filtered by them, but is going directly into the living rooms of their constituents."

Statutory restrictions on the use of state property for political purposes:

Section 15254 of the Government Code reads as follows:

15254. Radio and other communications facilities owned or operated by the state and subject to the jurisdiction of the Department of General Services shall not be used for political, sectarian, or propaganda purposes. Such facilities shall not be used for the purpose of broadcasts intended for the general public, except for fire, flood, frost, storm, catastrophe, and such other warnings and information for the protection of the public safety as the department may prescribe.

Staff Comment: The Agency should be prepared to discuss other videos or radio work produced by the Agency or its departments and supplied to the media.

Action: *Budget kept open, the Subcommittee requested that the Agency provide additional information concerning video productions (issue 1).*

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Family Leave program, and assists job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

Proposed Budget: The Governor proposes \$11.6 billion (\$19.2 million General Fund), a decrease of \$562.3 million (4.6 percent) from the current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

Expenditure by Program (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Employment & Employment Services	\$214,862	\$217,174	\$2,312	1.1
Tax Collections & Benefit Payment	11,259,402	10,726,262	-533,140	-4.7
Unemployment Insurance Appeals Board	74,735	75,551	816	1.1
Administration	47,174	52,894	5,720	12.1
Distributed Administration	(46,515)	(51,194)	-4,679	0.0
Employment Training Panel	44,041	36,073	-7,968	-18.1
Workforce Investment Act	477,720	452,685	-25,035	-5.2
National Emergency Grant Program	45,000	45,000	0	0.0
Unallocated Reduction		(299)	-299	0.0
Total	\$12,116,419	\$11,554,146	-\$562,273	-4.6

Note on Tax Collections and Benefit Payment: Expenditures for tax collections and benefit payments are not fixed at the Budget Act levels. Provisional language with the Budget Act appropriations allows the Administration to adjust expenditures up or down for changes in either workload or payments. Changes are primarily driven by economic conditions in the state – so the \$533 million reduction in the above table reflects an improved economic outlook instead of a program cut. EDD will update their forecast of benefit payments again in May and propose corresponding changes to the appropriations.

Note on the General Fund. The Department receives little General Fund relative to its overall budget – only \$19.2 million General Fund is proposed for 2005-06. This General Fund support allows the EDD to meet federal cost-sharing requirements for tax collection. While most special funds are non-transferable to the General Fund, penalty and interest collections, in the EDD Contingent Fund and EDD Benefit Audit Fund, may be transferred to the General Fund. In recent budgets, all fund balances not needed for EDD state operations, have been transferred – with a total of \$20.4 million transferred in 2004-05 and a total of \$8.0 million proposed for transfer in 2005-06.

EDD Issues Proposed for Consent / Vote Only

1. Tax Collection and Benefit Adjustments (Baseline adjustment). The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2004 forecast of future claims.

- Unemployment Insurance (UI): Benefits are proposed to decrease by \$13 million in 2004-05 and decrease by \$401.6 million in 2005-06. EDD indicates it will review staffing and propose any adjustments with the May Revision.
- Disability Program: Benefits are proposed to increase by \$382.5 million in 2004-05 and increase by \$209.2 million in 2005-06. Staffing is proposed to increase by 36.4 positions, and \$2.4 million (special fund).
- School Employees Fund Program: Benefits are proposed to decrease by \$34.1 million in 2004-05 and decrease by \$35.9 million in 2005-06. No staffing changes are proposed.

Staff Comment: No issues have been raised with this request.

Action: *Issue approved on a 3-0 vote.*

2. State Unemployment Tax Act (SUTA) “Anti-Dumping” Laws (BCP #7). The EDD requests 12 positions and \$892,000 (EDD Contingent Fund) to implement the provisions of Assembly Bill 664 (Chapter 827, Statutes of 2004), which added provisions to law to prevent the practice of “SUTA dumping.” The most common practice involves unscrupulous employers setting up new “shell” companies to be assigned a lower unemployment insurance rate than their current company’s record merits. AB 664 complies with recently enacted federal legislation, and penalizes this illegal practice. Although EDD did not budget additional revenue related to this request, the analysis for AB 664 indicated that past California losses from SUTA dumping could be in the tens of millions of dollars.

Staff Comment: No issues have been raised with this request.

Action: *Issue approved on a 2-1 vote, with Senator Campbell voting no.*

EDD Issues Proposed for Discussion / Vote

- 1. Federal Unemployment Insurance Loans (BCP #1).** The EDD is requesting provisional language in the Budget Act to allow for the payment of interest costs, up to \$3 million (from the EDD Contingency Fund), should interest payments be necessary on federal government loans. Similar authority was provided in the 2004 Budget Act.

Background: Recent legislation increased Unemployment-Insurance (UI) benefits, but did not increase the corresponding tax base or tax rate. SB 40 (Chapter 409, Statutes of 2001, Alarcón) provided for an increase in the maximum weekly benefit from \$230 to \$450. At the time that SB 40 was enacted, EDD estimated that it would increase annual costs for the UI fund by about \$1.2 billion each year. Current law allows for UI tax rate adjustments up to specified ceilings, based on economic conditions and the individual employer's use of IU benefits. However, the Legislative Analyst finds that the current tax revenue schedule is unsustainable through the full economic cycle – suggesting that when the economy again moves toward a recession, the UI Fund will become insolvent.

The federal government provides loans to states that experience negative UI Fund balances. If the loans are repaid within the federal fiscal year, no interest or penalties are applied to the loan. In April 2004, the UI Fund became insolvent and the state borrowed \$214 million in federal funds in order to pay benefit claims. The loan was repaid in May 2004. The 2004 Budget Act provided authority to pay interest on this loan, but due to the quick repayment, the federal government did not assess interest.

Legislative Analyst Findings: In the *Analysis of the 2005-06 Budget Bill* (page F-86), the LAO indicates it asked EDD to update the UI Fund forecast using the more-optimistic LAO economic forecast. The EDD reported back that using the LAO economic numbers produced positive UI Fund balances at the end of 2005 and 2006. Still, the LAO finds corrective action is needed to maintain UI solvency through the next recession. The LAO indicates corrective action could take the form of four options:

- Increase the taxable wage base from the current \$7000.
- Increase the tax rate schedules.
- Reduce benefit payments.
- Some combination of the previous three options.

Staff Comments: The LAO projects that the EDD will not be assessed a UI interest charge in 2005; however, the authority to make an interest payment would allow for an interest payment incase the forecast is incorrect.

Vote: Issue approved on a 2-1 vote, with Senator Campbell voting no.

2. **Workforce Investment Act (WIA) Provision Language (LAO issue):** The LAO recommends that the Legislature delete Provision 1 of the WIA Budget Act appropriation that allows the Administration to expend unanticipated “discretionary” WIA funds without the typical legislative review and normal budget requirements.

Background: WIA funds are federal funds provided to states for labor-force training and development purposes. Fifteen percent of WIA funds, called discretionary funds, can be spent on a range of workforce employment activities (state administration, statewide initiative, current employment services programs, and competitive grant programs) upon appropriation by the Legislature. The remaining 85-percent of WIA funds are allocated to local Workforce Investment Boards. Provision 1 of Item 7100-001-0869 of the 2004 Budget Act exempts WIA appropriation from Section 28.00 requirements. Section 28.00 of the Budget Act restricts the Administration’s expenditure of unanticipated federal funds and requires 30-day notification to the Legislature.

In December 2004, the Director of Finance notified the Legislature of \$21.7 million in unspent WIA funds from 2003-04. Pursuant to Provision 1, the notification creates expenditure authority without the normal input from the Legislature.

Legislative Analyst Recommendation: In the *Analysis of the 2005-06 Budget Bill* (page F-90), the LAO recommends deleting Provision 1 of Item 7100-001-0869, which would remove the exemption from the requirements of Section 28.00 of the budget bill.

Staff Comment. In the 2004 Budget Act the Legislature added a provision to the WIA appropriation that provided \$310,000 for the training of California Conservation Corps members. The Administration deleted this provision in the proposed 2005-06 budget bill.

Action: Issue left open. The Administration and the LAO are discussing alternative provisional language.

3. **Auditor and Collector Staffing (LAO Issue):** In the *Analysis of the 2005-06 Budget Bill*, the LAO recommends augmenting the EDD budget by \$3.6 million (\$2.6 million General Fund and \$1.2 million Disability Insurance Fund) and adding 50 auditor and collector positions. EDD indicates this proposal would increase revenues – producing a net General Fund benefit of \$1.0 million in 2005-06, which would increase to \$8.4 million in 2007-08.

Background: EDD collects from employers the payroll taxes for Unemployment Insurance (UI); employee contributions for Disability Insurance (DI); Personal Income Tax (PIT) withholdings; and payments to the employment training fund. Since 1998-99, EDD has lost 165 auditor and collector positions, most through position elimination requirements in recent budgets. At the same time, revenue-generating positions at the Franchise Tax Board and the Board of Equalization have been exempt from the position eliminations. Unlike the other tax collection entities, EDD does not a systematic method for identifying the strongest audit and collection leads with the biggest payoff.

Legislative Analyst Recommendation: In the *Analysis of the 2005-06 Budget Bill* (page F-92), the LAO recommends restoring 50 auditor and collector position. The LAO also recommends the following supplemental report language:

By January 10, 2007, the Employment Development Department shall report to the Legislature on the amount of additional revenue generated by the new auditors and collectors added during 2005-06.

Vote: Issue kept open.

4. **Benefit Audit Backlog (BCP #5).** The EDD is requesting a one-time augmentation of \$9,133,000 (EDD Contingency Fund) and 147 temporary help personnel years, to liquidate EDD's Benefit Audit backlog. EDD reports a backlog of 2.4 million benefit audits. A benefit audit is caused when data suggests an individual has work and earnings but continues to collect benefits by not reporting his or her return to work. The EDD expects audits will result in a total of \$105.3 million in accounts receivable – with an expected recovery of \$42.1 million (including \$8.4 million in penalties and interest). This backlog developed, in part, because staff were redirected to deal with the implementation of SB 40 (Chapter 409, Statutes of 2001, Alarcón), which increase Unemployment Insurance benefits, and by new identity-theft fraud schemes that the Department has had to combat. The request is for temporary funding, because EDD believes once the backlog is liquidated, the Department will be able to handle the ongoing workload.

Vote: Issues approved on a 3-0 vote.

- 5. Underground Economy Enforcement (BCP #8).** The Governor proposes to augment the Employment Development Department by \$2.5 million (EDD Contingent Fund and Disability Insurance Fund) and 23.7 positions, 3-year limited-term to conduct increased enforcement activities against employers who violate labor laws. The EDD indicates this proposal would combat a significant increase in the number of employers attempting to illegally cut operating costs by converting acknowledged employees to independent contractors. Since this effort is expected to identify unreported wages, EDD projects a General Fund benefit of \$0.78 million in the first year, and \$1.77 million annually thereafter.

This request is one of three requests from the Administration that make up the “Economic and Employment Enforcement Coalition” proposal. If the proposal is approved, EDD will work with the other proposed coalition members, the Department of Industrial Relations and the Contractors’ State License Board, to reduce underground-economy activity, and in doing so reduce unfair competition for employers who follow labor laws.

Action: Issue kept open to coordinate with a related budget proposal in Budget Subcommittee 4.

- 6. Employment Training Panel.** Employment Training Panel (ETP) Program expenditures are proposed at \$36 million in 2005-06, down from \$44 million in 2004-05. The mission of ETP is to provide financial assistance to California businesses to promote customized worker training through partnerships with government, business, and labor. A portion of ETP funds are used annually to support training in the CalWORKs program. The amount of ETP funding for CalWORKs has increased in recent years to offset General Fund reductions.

Control Section 6.60 of the 2004 Budget Act provided for State government workers’ compensation savings, up to \$40 million, to be directed to CalWORKs with an equal reduction in the ETP transfer to CalWORKs. The Administration reports that this mechanism has resulted in \$16 million for additional ETP grants. The \$16 million is an ongoing benefit to ETP, and is included in the Administration’s proposed budget.

Action: Issue kept open.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims, works to prevent industrial injuries and deaths, promulgates and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, assists in negotiations with parties in dispute when a work stoppage is threatened, and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor proposes \$344.1 million (\$63.1 million General Fund), an increase of \$25.1 million from the current-year budget.

Expenditures by Program (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Self-Insurance Plans	\$3,003	\$3,587	\$584	19.4
Mediation/Conciliation	2,266	2,261	-5	-0.2
Workers' Compensation	139,905	154,257	14,352	10.3
Commission on Health and Safety and Workers'				
Compensation	2,796	3,139	343	12.3
Division of Occupational Safety and Health	81,491	85,225	3,734	4.6
Division of Labor Standards Enforcement	43,490	46,983	3,493	8.0
Division of Apprenticeship Standards	8,369	9,991	1,622	19.4
Division of Labor Statistics and Research	3,930	3,915	-15	-0.4
Claims, Wages, and Contingencies	33,761	33,842	81	0.2
Administration	26,335	26,939	604	2.3
Distributed Administration	(26,335)	(26,939)	-604	2.3
Unallocated Reduction		(955)	-955	0.0
State-Mandated Local Programs	2	1,852	1,850	92500.0
Total	\$319,013	\$344,097	\$25,084	7.9

DIR Issues for Consent / Vote Only:

- 1. Language-Translation Service Contracts (BCP #5).** DIR requests a one-time augmentation of \$36,000 for service contracts to provide language translation services to assist workers with limited English proficiency to communicate with Division of Occupational Safety and Health staff. Conditional expenditure authority is requested up to \$60,000, should the fund balance in the Worker Safety Bilingual Investigative Support, Enforcement, and Training Account (Account) be sufficient. AB 2837 (Chapter 885, Statutes of 2002, Koretz) established the Account and specified the Account could receive contributions from individuals or private organizations, including the proceeds from a judgement in a state or federal court. In March 2004, the California District Attorneys Association gave DIR a check for \$36,000 related to an Order for Civil Compromise.
- 2. Division of Apprenticeship Standards – Apprenticeship Consultants (“Baseline” BCP #3) .** DIR is requesting \$409,000 (Apprenticeship Training Contribution Fund) and four Apprenticeship Consultant positions to address the backlog in statutorily mandated audits of apprenticeship programs, and to have sufficient staffing to attend apprenticeship committee meetings for educational and mediation purposes. Ongoing funding after 2005-06, is \$378,000 annually. The number of active apprentices has increased from 58,919 in June 2000 to 70,494 in June 2004, with nearing 1,000 apprenticeship programs in operation. The number of Apprenticeship Consultant positions have fallen from 28 in 2001-02 to 21 in 2003-04 as a result of the hiring freeze and vacant-position-elimination requirements.
- 3. Division of Apprenticeship Standards – Electrician Certification Unit (“Baseline” BCP # 6).** The DIR is requesting \$566,000 (Apprenticeship Training Contribution Fund) for seven two-year limited-term positions to process and review applications in the Electrician Certification Unit. In 2006-07, the cost of the positions would be \$527,000. Workload has increased in this area with legislation adopted over the past six years. AB 931 (Chapter 781, Statutes of 1999, Calderon), required the development of standards for competency and training of electricians. AB 1087 (Chapter 48, Statutes of 2002, Calderon), required electricians to become certified by January 1, 2005. As of July 2004, only 6,200 of an estimated 70,000 electrical workers in the state have completed the process. The Department indicates these positions are needed to process this workload spike as electrical workers meet this new requirement.
- 4. Workers’ Compensation Self Insurance Plans (“Baseline” BCP #7).** The DIR requests \$525,000 (Self-Insurance Fund) and 6 positions to address workload associated with workers’ compensation group self-insurance plans. After 2005-06, the ongoing funding request is \$509,000. The Labor Code allows any individual or group of employers to meet the statutory requirement of providing workers’ compensation benefits by obtaining a Certificate of Consent to Self Insure, which indicates the employer has provided a security deposit and the DIR has reviewed

the employer's financial ability to pay any claims. The number of applications processed by the SIP staff has increased by 200-percent since 2001, while the staffing level for this area has remain unchanged.

Action on consent issues: Approved on a 3-0 vote.

DIR Issues for Discussion:

1. Economic and Employment Enforcement Coalition (BCP #1 & 2). The Governor proposes an augmentation of \$3 million (special funds) and 27.5 positions (three-year limited term) to conduct increased enforcement activities against employers who violate labor laws. The DIR would use these additional positions to increase inspection activity and issue citations and penalties to employers who keep employees “off the books” and/or do not follow workplace safety regulations. The following two DIR Divisions are included in this request:

- The Division of Labor Standards Enforcement (BCP #1) would receive \$1.5 million and 16 positions for investigation, enforcement, and collection activities associated labor-law violations in the areas of workers’ compensation, minimum and overtime wages, and licensing compliance. These positions would be funded from the Uninsured Employers Benefits Trust Fund, the Garment Industry Regulation Fund and the Unpaid Wage Fund. The Division is 80-percent funded by the General Fund, and past General Fund reductions have reduced staffing from 493 in 2001-02 to 403 in 2003-04.
- The Division of Occupational Health and Safety (BCP #2) would received \$1.5 million and 13 positions for targeted enforcement of workplace health and safety laws for the following industries with higher levels of non-compliance: construction, agriculture, and garment manufacturing. These positions would be funded from the Targeted Inspection & Consultation Fund and the Industrial Relations Unpaid Wage Fund. DIR reports funding for field enforcement positions has declined in recent years – with 245 positions funding in 2001-02 and 209 positions funded in 2004-05.

The Employment Development Department and the Contractors’ State License Board are the other members of the proposed Economic and Employment Enforcement Coalition.

Action: Issue kept open to coordinate with a related budget proposal in Budget Subcommittee 4.

2. Division of Apprenticeship Standards - Clerical Positions (“Baseline” BCP #4).

The DIR requests funding of \$246,000 (Apprenticeship Training Contribution Fund) and four Office Technician (Typing) positions – funding after 2005-06 is requested at \$219,000. The number of Office Technician (Typing) positions has fallen from 19 in 2001-02 to 10.5 in 2003-04 as a result of the hiring freeze and vacant-position-elimination requirements.

The Department indicates there has been a workload increase associated with AB 2481 (Chapter 875, Statutes of 2000, Romero), which ended the practice of depositing contractors’ apprenticeship training contributions in the General Fund and instituted an automatic redistribution of the funds to training programs based on crafts and trades within specific geographic areas. The bill created the Apprenticeship Training Contribution Fund to deposit revenue from contractors that employ apprentices on public work projects. AB 2481 requires DIR to keep data regarding the geographic location of the public works project and the crafts and trades for which the training contributions are made. The Department indicates a backlog has developed. While Budget Change Proposal #2 in 2003-04 redirected three positions to this function, the Department indicates vacant position eliminations in other areas led them to decide not to move the redirected positions.

Two of the requested positions would perform work associated with AB 2481, and two positions would provide field office support.

Action: Approved on a 3-0 vote.

8950 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With \$50 million in general obligation bonds (Proposition 16, 2000), \$162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004, Wesson]), and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor proposes total expenditures of \$301.5 million (\$67.7 million General Fund), an increase of \$3.0 million from the current-year budget.

Expenditures by Program (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Headquarters				
Farm and Home Loans to Veterans	183,248	184,018	770	0.4
Veterans Claims and Rights	5,466	6,562	1,096	20.1
Care of Sick & Disabled Veterans	4,583	4,324	-259	-5.7
Farms and Home Loans to National Guard Members	38	38	0	0.0
Veterans Memorials Fund	33	33	0	0.0
General Administration	5,911	5,938	27	0.5
Distributed General Administration	(5,911)	(5,938)	-27	0.0
Total - Headquarters	193,368	194,975	1,607	0.8
Yountville Veterans Home	69,496	71,186	1,690	2.4
Barstow Veterans Home	12,508	11,775	-733	-5.9
Chula Vista Veterans Home	23,115	24,518	1,403	6.1
Unallocated General Fund Reduction		(973)	-973	0.0
Total - Headquarters and Homes	\$298,487	\$301,481	\$2,994	1.0

Expenditures by Fund Type (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
General Fund	68,604	67,705	-899	-1.3
Special Fund, Bond Fund	184,009	184,916	907	0.5
Federal Funds	20,392	21,874	1,482	7.3
Reimbursements	25,482	26,986	1,504	5.9
Total - Headquarters and Homes	\$298,487	\$301,481	\$2,994	1.0

Veterans Affairs Issues for Consent / Vote Only:

1. **Chula Vista Veterans' Home (BCP #3).** The Governor proposes to convert the 52 Chula Vista residential care beds to intermediate care beds, which would allow for a higher-level of assisted care. The Administration indicates this will increase federal funds by \$2 million, decrease General Fund support by \$940,000, and require an increase of 8.4 positions. The Department indicates this increases care options for veterans and the Department doesn't anticipate any opposition from residents.
2. **Veterans Service Offices - Continuing Education (BCP #6).** The Department requests to increase local assistance to the County Veterans Service Offices by \$84,000 (Veteran Services Office Fund) to offer additional training to staff at these offices. This augmentation would be funded out of the Veteran Services Office Fund, which receives revenue from specialized veterans license plates and was created to support the County Veterans Services Offices.
3. **Northern California Veterans' Cemetery (BCP #1).** The Governor proposes to add funding of \$446,000 (\$327,000 General Fund and \$119,000 federal funds) and 1.0 position for operations and maintenance of the new Northern California Veterans' Cemetery near Redding, which is scheduled to open in November 2005. Ongoing funding after 2005-06 is requested at \$514,000 (\$271,000 General Fund). Construction of the Cemetery was authorized by SB 4 (Chapter 604, Statutes of 1999, Johannessen), which specified that expenditures for maintenance may not be more than \$600,000 per calendar year. The requested expenditures fall within the statutory cap established by SB 4.

The Administration requests approval of associated trailer-bill language that clarifies existing language and adds language to specifically allow the Cemetery to accept and expend donations. See Attachment II at the end of this agenda for the Administration's trailer-bill language.

4. **Yountville Veterans' Home Chiller Replacement (BCP #4).** The Governor proposes to augment funding by \$832,000 on a one-time basis (\$200,000 General Fund and \$632,000 Federal Grant Fund) to replace a failing chiller at the Yountville facility. The chiller generates and pumps cooled water throughout the facility to provide cooling for the institution's elderly residents and for heat sensitive medical and computer equipment. This chiller is the older of two at the facility and a gradual degradation in performance was noted. The chiller was evaluated by an independent contractor whose evaluation report noted that corrosion prohibited repair of the existing chiller and a new chiller was required.

Staff Comment: No concerns have been raised with these budget changes.

Action on consent issues: *Approved on a 3-0 vote (including trailer-bill language for issue 3).*

Veterans Affairs Issues for Discussion:

- 1. College Fee Waiver Program (Committee-staff issue).** Current law provides a benefit to low-income dependents of deceased or disabled veterans through a waiver of mandatory system-wide tuition and fees at any Community College, California State University or University of California campus. The cost of the program is lost revenue to the colleges and universities, and is not included in either the Veterans Affairs or higher-education budgets.

Program requirements: Statute provides this benefit to “any child of any veteran of the United States military who has a service-connected disability, has been killed in service, or has died of a service-connected disability, where the annual income of the child, including the value of any support received from a parent, does not exceed the national poverty level.” To apply, dependents submit an application to a County Veterans’ Service Office (CVSO), which verifies veteran status with the federal government and reviews the dependents’ prior-year tax form for income eligibility. If approved, a “reward letter” is provided to the applicant for submission to the college or university.

Department of Veterans’ Affairs role: The Department of Veterans Affairs receives information from the CVSOs, on the number of applications approved and denied (The Department indicated that it stopped tracking applications denied in 2003-04 due to staff reductions). The Department does not track other data such as type of veteran disability, age of student, income of student, etc. The Department is also charged with promoting the program and handling appeals of denied applications. According to the Department, they administer this program with the equivalent of one personnel year. The Department advises the CVSOs, but does not audit their work.

Program participation and cost: The Department of Veterans Affairs indicates the number of approved applications has grown from 13,469 in 2000-01 to 14,178 in 2003-04. The number of denied applications has increased from 574 in 2000-01 to 728 in 2002-03. The Department does not track the use of the waivers or cost of the waivers at colleges and universities. Education Committee staff have contacted the college systems and the University of California reports lost revenue of \$13.6 million in 2003-04 and the California State University system reports lost revenue of \$9.4 million in 2003-04. The Community College System does not track the system-wide cost of this program.

Comparison to other financial aid programs: Most financial aid programs require more rigorous qualification of financial need. For example, all federal and California’s own Cal-Grant program determine a student’s financial need based on a common federal methodology which assesses the family’s ability to pay; parent income is included until the student is age 24 or married. These programs also have

an asset ceiling and require documentation of student, parent or spousal income and assets in the form of tax forms and bank statements. In addition, the Cal Grant program is only for undergraduates (there is no comparable state student financial aid program for graduate or professional level students) and eligibility is limited to four years of college attendance. These programs generally support students attending either private or public colleges.

Issues for discussion:

- Does the Department provide the appropriate amount of oversight for the County Veteran's Service Offices (CVSOs)?
- Does the Department collect the appropriate level of data on the program?
- Should the program be more integrated with other financial aid program both in terms of administration (i.e. involve the Student Aid Commission) and in terms of benefit levels (i.e. tie program benefits and qualifications more closely to other financial aid programs)?

Staff Comment: The Subcommittee may wish to ask the LAO if they could evaluate this program and provide the Legislature recommendations prior to next-year's budget deliberations.

Informational item. *The LAO indicated it would evaluate the fee waiver program and report to the Legislature during next year's budget deliberations.*

2. **Consolidated Budget Act Appropriations (BCP#2).** The Governor proposes to consolidate the support appropriations for the three existing veterans' homes and the headquarter operation into a single departmental organization code. The Administration indicates this is a more traditional budgetary treatment and will provide more flexibility to reallocate resources to meet emergent needs. While the Administration has scheduled each veterans home in the proposed budget bill, the combined appropriation would allow intra-schedule transfers of funds (pursuant to the provision of Section 26.00 of the Budget Bill), which is not allowable with separate appropriations. During past budget deliberations, the Legislature has been concerned with headquarter operations being performed by positions assigned and funded at the Veterans Homes.

Staff Comment: Given past concerns expressed by the Legislature about shifting positions and funding among the veterans homes and the headquarters, the Subcommittee may wish to consider either denying this budget request, or alternatively directing staff to craft provisional language that would prohibit shifts of funds among the homes and the headquarters.

Action: *Issue rejected on a 1-2 vote, with Senator Campbell voting aye.*

3. **Unallocated Budget Reduction.** The Governor proposes an unallocated General-Fund reduction of \$973,000. With the consolidated budget appropriation proposed by the Administration, this unallocated reduction could be taken at the homes or the headquarters.

Staff Comment: Given past budget reductions and deficiency requests it is questionable that the Department will be able to absorb this reduction while at the same time not redirecting any funds from the augmentations in the Budget Change Proposals requested below – which total \$1.132 million General Fund. The Department should explain how they will allocate the unallocated General Fund reduction, while at the same time not redirecting any funds from other Budget Change Proposal requests. The Department should also describe how much of this unallocated reduction would occur at the headquarters and how much would occur at each of the homes.

Action: Issue kept open. The Subcommittee requested that the Department detail how it plans to implement this unallocated reduction.

4. **Veterans Claims Staffing (BCP #5).** The Department requests \$170,000 (General Fund) and two two-year limited-term positions to liquidate a backlog of claims and delayed benefits for veterans who are represented by the State in the appeals process with the U.S. Department of Veterans Affairs.

Action: Issue kept open. The Subcommittee will consider this issue after reviewing the Department's plan for the unallocated reduction.

- 5. Hospital Cost Accounting System (BCP #7).** The Department requests a one-time augmentation of \$100,000 (General Fund) to hire a consulting firm with expertise in hospital cost accounting systems. If approved and implemented, the Department indicates it would be better able to report costs for different types of care, and better estimate operational costs for new veterans homes to be opened in the future.

Action: Issue kept open. The Subcommittee will consider this issue after reviewing the Department's plan for the unallocated reduction.

- 6. Capital Outlay Projects – Yountville Home (CO BCP).** The Department requests a total of \$862,000 (General Fund) for the following three minor capital outlay projects at the Yountville home.

- \$260,000 to increase the number of paved parking spaces to serve veterans who live in Sections F and D, and their guests.
- 399,000 to increase the number of paved parking spaces to serve veterans who live in Sections C and E, and their guests.
- 203,000 to build five new bus shelters (eight bus shelters currently exist) to protect residents from sun and rain.

Action: Issue kept open. The Subcommittee will consider this issue after reviewing the Department's plan for the unallocated reduction.

Attachment I
Transcript from Administration-Produced Video on Proposed Meal-Break Regulations (obtained from <http://www.dir.ca.gov/dlse/mandrprtranscript.htm>)

Screen:

The following video news release is from the California Labor and Workforce Development Agency

Screen:

Suggested Anchor Lead

The California Division of Labor Standards Enforcement issued emergency regulations that would give business owners and employees more flexibility involving meal and rest breaks, allowing California businesses to better manage staff and offer employees more choices in their work place.

The proposed rules seek to eliminate confusion and ambiguities in the law for both employees and employers.

Screen:

Suggested Anchor Lead (cont)

If approved, the changes would clear up uncertainty in the business community and create a better working environment throughout the state.

Voice over:

Prior to 2000, the rules required that companies make sure that workers took their meal breaks. Since 2000, however, California law simply requires that companies "provide" employees with meal breaks before the sixth hour of their shifts. The subtle change in the law has resulted in much confusion, penalties and even litigation.

Consequently, employees are often forced to take lunch breaks when they don't want them.

Now under new proposed regulations, workers in California would have the opportunity to take a meal break before finishing the fifth hour of a shift. It would mean that they could eat when they're hungry and not when the government tells them.

Jose Millan, Labor & Workforce Development Agency:

"The employee then has the flexibility to determine whether or not they want to eat earlier or later or skip lunch all together to run personal errands and get off work earlier."

Voice over:

Under the proposed regulations, employers must inform workers of the new rules and keep accurate time records. The change would provide choices for employees.

Doug Branigan, Regional Manager, Mimi's Café:

"Currently, the employees really don't have a choice. They're adults and they would like to have a choice, and I think the benefits to them would be they could make greater income and in a lot of cases they could get out of work, they could leave earlier."

Voice over:

These new regulations would affect every working person in California covered by state employment laws: construction workers, nurses, food service employees and agricultural workers.

Doug Hemley, Grower:

"In the employer/employee relationship the best thing is a mutually agreed upon approach. We aren't imposing on the employee something that they frankly would rather not do."

Voice over:

Forklift supervisor Lupe Rodriguez considers the proposed, new workplace schedule flexibility an added benefit for California's workers.

Lupe Rodriguez, Forklift Supervisor:

"You get things done a little bit faster and if you have something to do at the end of the day you're not looking at, well because I had to take my lunch at a certain hour .. it makes it easier for me."

Voice over:

Many working Californians can benefit from the proposed regulations because the change provides real-life relief. Workers with special circumstances such as medical conditions, childcare issues or caring for elderly parents would have flexibility with their work schedules.

Jose Millan, Labor & Workforce Development Agency:

"It's not an attempt to take away the right of an employee to a meal period, but rather to clarify the responsibility of the employer to provide that meal period for their employees."

Voice over:

The proposed meal and rest period regulations DO NOT relieve employers from any existing laws. They DO give employees more choices in managing their working and personal lives.

If the Office of Administrative Law approves the regulations, after a series of public hearings, they will go into effect by sometime this spring.

Screen:

Suggested Anchor tag

Lunch breaks have become the source of numerous lawsuits. According to the California Department of Industrial Relations, since August 11, 2004, the State has received nearly 290 notifications of violations regarding wage and hour issues. Half of those notifications involved meal and rest periods.

A copy of the proposed regulations can be found on the Department of Industrial Relations website at www.dir.ca.gov.

Screen:

Additional sound bites in Spanish

Attachment II
Proposed Trailer Bill Concerning the Veterans Cemetery

COR/CEN #14

~~Issue #1~~

Draft Trailer Bill Language

Northern California Veterans Cemetery

January 28, 2005

Government Code Section 1401 is amended to read:

1401. (a) For the purposes of Section 1400, the Shasta County Board of Supervisors may join with other northern California counties including, but not limited to, the Counties of Colusa, Del Norte, Glenn, Humboldt, Lassen, Mendocino, Modoc, Plumas, Shasta, Sierra, Siskiyou, Tehama, and Trinity, to design, develop, and construct the cemetery.

(b) All moneys received for the design, development, and construction of the cemetery shall be deposited in the Northern California Veterans Cemetery Master Development Fund, which is hereby created in the State Treasury. Notwithstanding Section 13340 of the Government Code, money in the fund is continuously appropriated to the department for the purpose of designing, developing, constructing, and equipping the cemetery. Moneys appropriated by the Legislature for these purposes shall also be deposited in the fund.

(c) (1) All moneys received for the maintenance of the cemetery, including moneys received pursuant to subdivision (b) of Section 1400, shall be deposited in the Northern California Veterans Cemetery Perpetual Maintenance Fund, which is hereby created in the State Treasury. Any state funding for the annual maintenance of the cemetery shall be appropriated by the Legislature in the annual Budget Act.

(2) It is estimated that, after the construction of the cemetery, four hundred fifty thousand dollars (\$450,000) should be appropriated annually by the state or the participating northern California counties, or both, to the department for the operating costs of the cemetery.

(3) ~~Expenditures for maintenance may~~ *Total expenditures for operations and maintenance should not be more than six hundred thousand dollars (\$600,000) per calendar year fiscal year as appropriated in the annual budget act.*

Government Code Section 1402 is added:

1402 (a) Notwithstanding Government Code, Section 11005, the cemetery administrator, subject to the approval of the Secretary, may accept donations of personal property including cash or other gifts, to be used for the maintenance or beautification of the cemetery.

(b) Cash donations shall be deposited into the Northern California Veterans Cemetery Perpetual Maintenance Fund and shall be expended for the maintenance and repair of the facility or for the purpose designated by the donor, subject to the approval of the Secretary. Notwithstanding Section 13340 of the Government Code, moneys in the fund, resulting from cash donations, are continuously appropriated to the department, without regard to fiscal year.

(c) (1) Proposals for the construction, placement or donation of monuments and memorials shall be subject to review by an advisory committee made up of the cemetery administrator, representatives from Shasta County, local veteran service organizations, and others, as approved by the Secretary.

(2) All monument and memorial proposals are subject to the approval of the Secretary.

(3) For the purposes of this subdivision the department shall adopt regulations related to the appropriate design, placement, and approval of monuments and memorials on the cemetery grounds.